



Is Cameco Corp. a Strong Contrarian Pick Today?

Description

Contrarian investors are always searching for [beaten-up stocks](#) that might be on the verge of an impressive recovery.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it is an attractive pick right now.

Tough times

Long-term investors in Cameco are wondering when the beleaguered uranium market will finally recover. It's easy to understand why they might be losing patience.

The commodity has been in a horrible slump since the 2011 nuclear disaster in Japan, when the country shut down its entire fleet of nuclear reactors after the Fukushima accident. Progress to get the facilities back in service remains slow, and a recent report indicated only five of the operable 48 sites have entered commercial service.

Mining companies have reacted to the downturn by reducing output, but secondary supplies in the market are addressing any demand gaps.

Upside?

Uranium bulls say the market will eventually turn due to the robust growth of nuclear development in other countries as well as a lack of required investment in new production facilities.

It's true that more than 50 reactors are currently under construction, and annual uranium demand is forecast to grow as much as 50% by 2030. In addition, secondary supplies might not be able to cover the demand growth, so the market could switch to a shortage position at some point in the coming years.

For the moment, however, the situation appears to be rather bleak. The average year-to-date uranium spot price as of Cameco's Q3 report was down about 20% compared to the 2016 annual average.

CRA issues

Cameco is also caught up in a battle with the Canada Revenue Agency (CRA) regarding taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, it could be on the hook for \$2 billion in taxes and penalties.

A decision on the first leg of the process is not expected until 2018 at the earliest.

The numbers

Cameco reported a Q3 2017 net loss of \$124 million and an adjusted net loss of \$50 million.

In addition, the company reduced its 2017 production outlook from 25.2 million pounds to 24 million pounds due to production delays and lower-than-expected output at two of its mines.

On the positive side, cash from operations is expected to be higher for 2017 than it was last year, and Cameco continues to pay its dividend, which currently provides a yield of 3.3%.

Should you buy?

Cameco is a low-cost producer with some of the richest uranium resources on the planet. When the market turns, this stock should do very well.

However, there probably isn't a rush to [hit the buy button](#), and investors might want to wait for the first decision on the CRA case before adding Cameco to their portfolios.

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Date

2025/08/25

Date Created

2017/11/27

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